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Taricani, Jr.

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(54) **COMPUTER-BASED SYSTEM, COMPUTER PROGRAM PRODUCT AND METHOD FOR RECOVERING TAX REVENUE**

FOREIGN PATENT DOCUMENTS

WO WO-96/36948 * 11/1996

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* cited by examiner

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 0 days.

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This patent is subject to a terminal disclaimer.

(57) **ABSTRACT**

(21) Appl. No.: **09/417,900**

An effective and efficient system for recovering tax revenue. One implementation is to recover tax revenue currently not being recovered by storing data in a database indicating interstate sales transactions on which a seller does not collect a designated tax, such as a sales tax. This database is part of a computer network which organizes and stores the data in the database and automatically sends out tax due notices to purchasers when data in the database indicates that an interstate sale has taken place and no designated tax has been collected from the purchaser by the seller. This database can also be updated to reflect payment of the tax indicated in the tax due notice, and can automatically remit appropriate revenues to a revenue agency when the tax due notice has been paid. One implementation is also collecting a simplified tax on all interstate sales transactions, and then storing data in a database indicating this collected simplified tax and data as to a revenue agency entitled to the tax based on the purchaser, the state of residence of the purchaser, etc. Based on this data in the database, the collected simplified taxes can be proportioned and routed to the appropriate revenue agency.

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Related U.S. Application Data

(63) Continuation of application No. 09/078,616, filed on May 14, 1998, now Pat. No. 6,016,479.

(60) Provisional application No. 60/074,357, filed on Feb. 10, 1998, provisional application No. 60/076,502, filed on Mar. 2, 1998, and provisional application No. 60/082,554, filed on Apr. 21, 1998.

(51) Int. Cl.⁷ **G06F 17/60**

(52) U.S. Cl. **705/19; 705/16; 705/17; 705/26; 705/31**

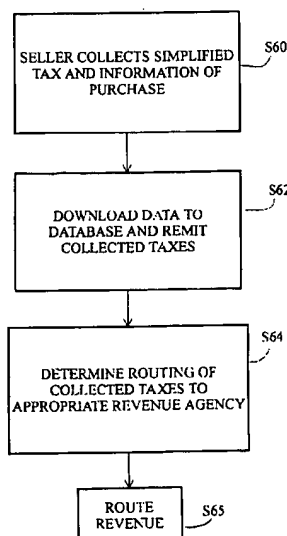
(58) Field of Search **705/16, 17, 19, 705/26, 31**

(56) **References Cited**

U.S. PATENT DOCUMENTS

5,644,724 A * 7/1997 Cretzler 705/19
5,875,433 A 2/1999 Francisco et al.
6,016,479 A * 1/2000 Taricani, Jr. 705/19

25 Claims, 12 Drawing Sheets



US-PAT-NO: 6347304

DOCUMENT-IDENTIFIER: US 6347304 B1

TITLE: Computer-based system, computer program product and
method for recovering tax revenue

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Abstract Text - ABTX (1):

An effective and efficient system for recovering tax revenue. One implementation is to recover tax revenue currently not being recovered by storing data in a database indicating interstate sales transactions on which a seller does not collect a designated tax, such as a sales tax. This database is part of a computer network which organizes and stores the data in the database and automatically sends out tax due notices to purchasers when data in

the database indicates that an interstate sale has taken place and no designated tax has been collected from the purchaser by the seller. This database can also be updated to reflect payment of the tax indicated in the tax due notice, and can automatically remit appropriate revenues to a revenue agency when the tax due notice has been paid. One implementation is also collecting a simplified tax on all interstate sales transactions, and then storing data in a database indicating this collected simplified tax and data as to a revenue agency entitled to the tax based on the purchaser, the state of residence of the purchaser, etc. Based on this data in the database, the collected simplified taxes can be proportioned and routed to the appropriate revenue agency.

Brief Summary Text - BSTX (5):

At the present time the vast majority of sales that take place by mail-order or over the Internet (or other "virtual" sales forums) are not taxed by either the state in which the selling company is located or the state in which the purchaser is located. For example, if a buyer in Maryland purchases a product over the Internet or through mail-order from a company in California, the seller does not collect sales tax on that sales transaction since the sale did not technically take place in California, and the buyer was not physically located in California at the time of sale. Maryland does not receive a tax on that sales transaction because, undoubtedly, Maryland revenue officials would

not have been made aware of the sale. While the buyer, a Maryland resident, has an obligation to pay a Use tax, few individuals voluntarily pay the tax (or are even aware of their obligation to pay the tax).

Brief Summary Text - BSTX (6):

At the present time state revenue agencies are limited in their ability to require out-of-state businesses with no physical presence in their state, e.g., mail-order or Internet sellers, to collect sales taxes that are due from purchases made by residents in their state. The determining factor as to whether a state can require a seller to collect its sale taxes is a detected "nexus", physical presence (or lack thereof), on the part of the seller, which determines collection responsibility. In the example noted above, the state of Maryland cannot compel the seller in California to collect Maryland sales tax from the purchaser in Maryland because the seller in California does not have any physical presence in, i.e. "nexus" with, the state of Maryland. Thus, unlike intrastate sales, where the state may place the tax collection burden on the seller, the state does not have the legal power to place the tax collection burden on out-of-state sellers. Furthermore, due to the lack of information regarding the sale, and the lack of a communications infrastructure to send tax due notices and monitor the remittance of funds, states routinely experience significant lost opportunities to collect taxes on interstate sales made via these mediums.

Brief Summary Text - BSTX (7):

Moreover, if a business does not maintain any physical presence in a particular state, but sells merchandise to a resident of that state, the business is not burdened with collecting sales tax at the time the sale is made. However, most states that have sales taxes also place an obligation on the purchaser of that state to pay the required tax (as determined by state sales tax provisions) whether the tax is collected by the seller or not (i.e., the burden is placed on the buyer to voluntarily pay the tax). Certain states also have a "Use" tax which can be levied on such sales in lieu of a sales tax, but which is generally at the same rate as the state sales tax. The reality is, however, that such purchasers of mail-order and Internet sales will rarely voluntarily pay the required sales or use tax. Further, state revenue agencies are severely disadvantaged if the seller does not collect the required tax because the state revenue agency rarely finds out that a sale was made, and thus is unaware of the taxable sale. Since revenue agencies are not aware of such sales transactions, and as consumers rarely voluntarily pay the required applicable sales or use tax, a large amount of revenue is currently uncollected.

Brief Summary Text - BSTX (8):

This problem of allowing such taxable transactions to go unrecorded and thereby be untaxed is accelerating rapidly as Internet sales increase. It has been estimated that lost revenue for state revenue agencies will be measured in tens of billions of dollars by the year 2002. Moreover, in-state taxpaying businesses have complained of a disadvantage to their respective firms in being required to charge **sales tax**, while mail-order and Internet sales do not impose and collect a **sales tax**.

Brief Summary Text - BSTX (10):

Also, it has been suggested at different times in Congress, pursuant to its Commerce Clause power to regulate interstate commerce, to require mail-order sellers to keep track of each out-of-state sale and to collect the appropriate **sales tax** for each out-of-state sale. However, at this time no such requirement has been implemented due to the burdensome nature of requiring a seller to monitor **sales taxes** which can vary not only between the different states, but also between different jurisdictions within the states. It has been estimated that there are thousands of different taxing jurisdictions (about 6000), each of which has the authority to charge different **sales taxes**. Shifting such a tax collection burden from the states themselves to the sellers would serve as yet another taxation--a government mandated activity levied on sellers, which presumably would give "big business" an unfair advantage over small "mom and pop" franchises who barely have sufficient resources to conduct their own business, let alone calculate, collect and distribute interstate taxes for which the business gets no monetary gain or economic value. To further complicate matters, these jurisdictions have different tax rates, and also have different provisions for not taxing certain merchandise, e.g., some states do not tax the sale of food or certain clothing. Requiring a seller, particularly small businesses such as those emerging on the Internet, to collect the taxes for each of these different Jurisdictions has been found to be burdensome and thus has not been implemented.

Brief Summary Text - BSTX (11):

Another problem with conventional tax revenue systems is that there are currently no efficient systems to route collected tax revenues to the appropriate revenue agencies, or to verify that the taxes are being collected. Such problems would only be exacerbated if a seller was required to collect **sales taxes** for all taxing jurisdictions on out-of-state sales.

Brief Summary Text - BSTX (12):

One solution to a related, but different, problem is disclosed in U.S. Pat. No. 5,644,724 to Cretzler. This patent describes a system for more efficiently routing in-state sales tax revenues from credit card transactions to an appropriate state revenue collecting agency. However, the system of Cretzler is only applied to credit card transactions and does not even address interstate sales transactions on which no tax is currently collected, and for which no infrastructure is established to identify taxable events, determine if a tax was voluntarily paid on the taxable event, issue a notice if the tax was not paid after a predetermined period of time, and perform periodic checks to determine if the tax was subsequently paid.

Brief Summary Text - BSTX (14):

The inventor of the present invention has recognized that currently no effective methods, systems or computer program products are available to assist in collecting sales or use taxes on interstate transactions (including Internet and mail-order) in which the seller does not collect the tax. Accordingly, one object of the present invention is to provide a solution to this problem, as recognized by the present inventor.

Brief Summary Text - BSTX (15):

The inventor of the present invention has also recognized that currently no efficient methods, systems or computer program products exists to assist in routing collected revenue on sales taxes to appropriate revenue collection agencies. Accordingly, a further object of the present invention is to provide a solution to this problem, as recognized by the inventor.

Brief Summary Text - BSTX (16):

To achieve these objects, the present inventor has invented a novel computer-based system, method and computer program product, by which interstate sales tax collection is performed in a cost-effective manner, and which fairly applies existing (and contemplated) laws to consumers depending on state guidelines, and does not unfairly shift the government's burden of tax collection to the seller.

Detailed Description Text - DETX (7):

The present invention as shown in FIG. 1 can be implemented to efficiently and accurately recover revenue from interstate sales transactions for which a seller does not collect a sales tax. The control operation performed by the network computer 1 is shown in FIG. 7, and is executed by one or more

processors in the network computer (which by the way may be a distributed processor having processing resources distributed about a network) reading computer readable instructions encoded in memory in the network computer 3. The operation executed by the network computer 1, in FIG. 1, implementing the control operation of FIG. 7, will now be discussed in greater detail.

Detailed Description Text - DETX (9):

The operation then proceeds to step S2, which is an optional step--hence the dashed line, in which the data stored in the database 2 is compared with data hosted by the revenue agency 4. This step addresses a concern that a purchaser of goods may voluntarily pay a sales or use tax on an interstate purchase, or in some other way the purchaser will have been required to pay the sales or use tax. To ensure that such a purchaser is not double-billed, the network computer 1 can in step S2 compare the data in the database 2 with data hosted in a revenue agency database indicating paid taxes on interstate sales. When it is determined that the database 2 contains data for sales transactions on which a tax has already been paid, such sales transactions are deleted from the database 2. To facilitate this comparison process, the database 2 and the revenue agency database may be constructed as a relational database, where one or more records in the database 2 relate to one or more records in the revenue agency database. This step S2 is optional because a revenue agency 4 may not have such records of voluntarily paid taxes available or may not accept such voluntarily paid taxes. Alternatively, the network computer 1 holds the tax paid data on behalf of the revenue agency 4. In this way the revenue agency need not be bothered with maintaining records on who has paid their sales or use tax, and relies on the proprietor of the network computer 1 to maintain this information. In this alternative embodiment, residents remit their taxes directly to the proprietor of the network computer 1.

Detailed Description Text - DETX (10):

The operation then proceeds to step S3 in which the network computer 1 after reviewing the data in the database 2 then automatically generates and sends, for example by mail or secure (e.g., encrypted) electronic communication, tax due notices to purchasers of goods on which the appropriate sales or use tax has not been paid. This generating and sending of the tax due notices can, e.g., take place on letterhead of the revenue agency collecting the taxes; in this instance, the operator of the network of the present invention acts as an agent of the revenue agency. Depending on the arrangement with the revenue agency, such tax due notices require payment to be sent directly to the revenue agency 4 or require remittance to the operator of the network computer 1. When

the tax due notice indicates payment is to be paid to the network operator, the network operator essentially acts as an independent contractor for the revenue agency 4 and can take the revenue agency 4 out of the loop of collecting such taxes. Thus, implementing the procedure of FIG. 7 avoids the problem of shifting the tax collection burden on the seller, and also avoids having the government send tax due notices and collect and monitor the payment of tax remittances. Moreover, the system of FIG. 1 when implementing the process of FIG. 7 enables a separate entity to perform the tax collection process on interstate sales with minimal inconvenience on sellers, and state and local governments.

Detailed Description Text - DETX (12):

The network computer 1 can also operate with several revenue agencies, even though only one is shown in FIG. 1. Under this instance, detailed information about sales tax rates and structures for each revenue agency can be part of the computer program product resident within the computer resources available to the network computer 1. The result is that the sales database 2, which will be sorted through computer-based sorting processes, can be organized by revenue agency, with purchase information broken down into database fields of taxable categories and a tax due on an item by item basis. Further, the tax due notices generated by the network computer 1 can include, as noted above, revenue agency letterhead, and can also include a revenue official signature (physical or digital equivalent), the purchaser's name and address, the purchase date, the purchase items broken down into broad categories, seller's name, the tax due, an explanation of the basis for the tax, etc.

Detailed Description Text - DETX (17):

In the embodiment shown in FIG. 2, the manner in which the input mechanism 3 receives data of the untaxed transactions to be provided to the database 2 is by an audit operation by audit mechanism 6. Also with reference to FIG. 8, a first step in executing an audit is to obtain data of mail-order, Internet, etc., vendors which engage in interstate commerce, see step S10. Then, sales data is gathered from auditing sales file 7 of such interstate sellers, reflecting sales to a purchaser 5 on which no sales tax has been collected by the seller, see step S12. This audit can be a manual audit or can be an automatic audit which electronically scans the sales files 7 of a seller. The sales files 7 can range from paper files which are manually read and input, e.g. through a keyboard, electronically scanned, etc., to commercial databases, e.g., ORACLE 7, ORACLE 8, etc. of the seller which can be searched by search engines, etc.

Detailed Description Text - DETX (23):

As noted above, the database 2 stores data of untaxed interstate sales transactions. A structure of the data fields stored in the database 2 therefore should include a purchaser's name (which may include a unique taxpayer ID and/or the taxpayer's social security number), an address to which a bill was sent (ADDRESS 1), an address to which goods or services were delivered (ADDRESS 2), sale date, sale amount, sale information broken down into broad categories such as clothing, food, merchandise, etc., because each state has different sales and use tax laws depending on the type of purchase transaction and any information as to any claim of tax exemption claimed by the purchaser, and Revenue Agency Code that uniquely identifies the revenue agency to which the tax is to be remitted. FIG. 4 shows the structure of one example of data fields in this database 2. Optionally, a flag field may be added that indicates whether, and how many times, the network computer 1 has checked to determine whether the tax has been remitted by the taxpayer. This flag field includes a separate indication that the tax has been paid, once the network computer 1 verifies the tax has in fact been paid. The flag field may also include an indication as to when the tax was paid so that the network computer 1 will know when to purge (or move to permanent storage, such as an optical media) past payment records.

Detailed Description Text - DETX (33):

As noted above, a further drawback in currently existing tax collection systems is that even if a seller wishes to collect appropriate sales taxes, it is a cumbersome procedure as a result of the numerous tax rates of various jurisdictions and the different rules as to what items are taxable in the different jurisdictions. Even further, once a seller does collect a tax a seller must then route the tax to the appropriate jurisdiction. As noted above, there are thousands of different taxing jurisdictions just within the United States. Obviously it would be cumbersome on the seller to collect the appropriate tax and then route the appropriate tax to the appropriate revenue agency.

Detailed Description Text - DETX (38):

It is envisioned that a substantial culture change will have to take place as purchasers become accustomed to paying their tax obligations on Internet and mail order purchases. An employee of the operator of the network computer 1 inventor will have data readily available on any purchaser who has received a bill. If a purchaser makes an incoming call to the network, the representative

will access the tax due bill and all associated data on the purchase. The network employee can work as an agent for the revenue department under whose name the bill was mailed. As such, customer service telephone numbers will appear on each and every statement. Each number is specific to a particular state and only representatives with expertise in the sales tax requirements for a particular state will respond to the incoming calls.

Detailed Description Text - DETX (39):

In such a call, it is expected that the purchaser will dispute the tax due for two primary reasons: similar purchases were never previously taxed or because sales data obtained via the original audit was erroneous. On the matter of the first issue, each representative is educated in the sales tax structure of the particular state. The representative will review the provisions within the state tax code that outlines the state's right to tax the purchase which was made. As a registered agent for the revenue department for the state, the representative will review the rights and remedies the revenue department has for collecting taxes which are due, and specifically the rights and remedies the revenue department has for collecting sales and use taxes.

Detailed Description Text - DETX (45):

As some other concrete examples of the present invention, which examples are by no way an exhaustive list of applications, if a national sales tax was implemented, the infrastructure employed by the system of the present invention could ease in the distribution of collected revenues to an appropriate revenue agency.

Claims Text - CLTX (7):

3. A method of recovering tax revenue according to claim 1, wherein the designated tax is a single rate sales tax.

Claims Text - CLTX (9):

5. A method of recovering tax revenue according to claim 1, wherein the designated tax is a single rate sales tax.

Claims Text - CLTX (17):

receiving from a seller a seller-collected sales tax, exclusive of a payment

for a purchased item or service, originally paid by a purchaser and information regarding a tax jurisdiction of the purchaser and the purchased item or service;

Claims Text - CLTX (20):

transferring said seller-collected sales tax to the revenue agency.

Claims Text - CLTX (23):

storing said seller-collected sales tax in an account prior to performing said transferring step.

Claims Text - CLTX (26):

authorizing, using said transmission report, said account to transfer said seller-collected sales tax to said revenue agency.

Claims Text - CLTX (30):

12. The method according to claim 7, wherein said step of transferring said seller-collected sales tax comprises:

Claims Text - CLTX (31):

deducting a network fee from said seller-collected sales tax; and

Claims Text - CLTX (32):

wiring said seller-collected sales tax less said network fee to said revenue agency.

Claims Text - CLTX (34):

reporting to said revenue agency that said seller-collected sales tax has been received.

Claims Text - CLTX (36):

receiving a predetermined sales tax payment, but not a purchase amount, for a sale to a purchaser, wherein said purchaser being located in a purchaser jurisdiction outside a nexus of a vendor of said sale, said purchaser jurisdiction being one of multiple tax collecting jurisdictions;

Claims Text - CLTX (37):

updating a payment database to reflect said predetermined **sales tax** payment for said sale;

Claims Text - CLTX (38):

remitting said predetermined **sales tax** payment to a revenue agency in said purchaser jurisdiction;

Claims Text - CLTX (39):

reporting said predetermined **sales tax** payment to said revenue agency.

Claims Text - CLTX (40):

15. The method according to claim 14, further comprising a step of calculating the predetermined **sales tax** payment for a tax rate used by said purchaser jurisdiction.

Claims Text - CLTX (42):

receiving a predetermined **sales tax** payment for a sale to a purchaser, exclusive of an amount of the sale wherein a vendor being located in a jurisdiction outside a nexus of the purchaser of said sale, said purchaser jurisdiction being one of multiple tax collecting jurisdictions;

Claims Text - CLTX (43):

sending from the vendor the predetermined **sales tax** payment;

Claims Text - CLTX (58):

a tax revenue account configured to receive a **sales tax** collected by a seller from a consumer, exclusive of a payment for the purchase said **sales tax** being determined for a tax jurisdiction of said consumer, said tax jurisdiction being one of a plurality of tax jurisdictions;

Claims Text - CLTX (60):

to transmit said tax information to said sales file database and said **sales tax**, to said tax revenue account,

Claims Text - CLTX (62):
to remit said **sales tax** to said revenue agency.

Claims Text - CLTX (64):
a revenue distribution network configured to transmit said remitted **sales tax** to said revenue agency.

Claims Text - CLTX (68):
means for receiving from a seller a seller-collected **sales tax**, exclusive of a payment for a purchased item or service, and information regarding a tax jurisdiction of a purchaser and a purchased item or service;

Claims Text - CLTX (71):
means for transferring said seller-collected **sales tax** to the revenue agency.

Claims Text - CLTX (73):
means for receiving a predetermined **sales tax** payment for a sale, exclusive of a purchase amount from a purchaser located in a purchaser jurisdiction, outside a nexus of a vendor of said sale, said purchaser jurisdiction being one of multiple tax collecting jurisdictions;

Claims Text - CLTX (74):
means for sending the predetermined **sales tax** payment from the vendor, to a payment database;

Claims Text - CLTX (75):
means for updating the payment database to reflect said predetermined **sales tax** payment for said sale;

Claims Text - CLTX (76):
means for remitting said predetermined **sales tax** payment to a revenue agency
in said purchaser jurisdiction;

Claims Text - CLTX (77):

means for reporting said predetermined sales tax payment to said revenue agency.